

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 7419**

**BILL NUMBER:** HB 1546

**NOTE PREPARED:** Apr 7, 2009

**BILL AMENDED:** Apr 7, 2009

**SUBJECT:** Public Retirement Fund Benefits.

**FIRST AUTHOR:** Rep. Niezgodski

**FIRST SPONSOR:** Sen. Kenley

**BILL STATUS:** CR Adopted - 2<sup>nd</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation** (Amended) This bill:

- (1) permits members of the Teachers' Retirement Fund (TRF) and the Public Employees' Retirement Fund (PERF) to change investment selections once each day, with the change being effective on the next business day after the fund receives the change notice;
- (2) establishes the market valuation date of a member's investment as of five business days before the date of the member's distribution or annuitization at retirement, disability, or suspension and withdrawal;
- (3) codifies a noncode provision that permits members of the Legislator's Retirement System (LRS) to change investment selections once each day;
- (4) allows a member of the LRS to allocate the investments in the member's account in increments smaller than 10%, if authorized by the PERF Board;
- (5) allows the PERF Board and the TRF Board to establish a single composite interest or earnings rate in order to compute the interest or earnings credits on a member's omitted contributions in the Guaranteed Program or an alternate investment program;
- (6) requires employers to submit contributions and reports to PERF and TRF electronically after December 31, 2009, unless the employer obtains a waiver of the requirement for a period not to exceed two years;
- (7) allows the PERF and TRF Boards to establish by rule due dates for employer contributions and reports;
- (8) increases from \$200 to \$1,000 the maximum amount in a member's Annuity Savings Account (ASA) for purposes of suspending the member's Fund membership and paying the ASA in a lump sum; and

(9) provides for a thirteenth check for members, survivors, and beneficiaries of PERF.

**Effective Date:** July 1, 2009; January 1, 2010.

**Explanation of State Expenditures:** (1-2) Changing investment selections and establishing the market valuation date of a member's investment will have no fiscal impact on PERF and TRF. The funds affected are the respective administrative funds.

(Revised) (3 and 4) Codifying a noncode provision that permits members of the Legislator's Retirement System to change investment selections once each day and allowing a member to allocate the investments in the member's account in increments smaller than 10% if authorized by the PERF Board will have no fiscal impact on PERF's administrative fund.

(Revised) (5) Allowing the PERF and TRF Boards to establish a single composite interest or earnings rate will generate savings for PERF estimated at \$20,000 per year, and savings for TRF estimated at \$10,000 per year. The funds affected are the respective administrative funds.

(Revised) (6) Requiring employers to submit contributions and reports to PERF and TRF electronically may reduce the annual costs associated with these reports. The funds affected are the respective administrative funds. PERF has estimated cost savings for this at \$40,000 per year.

(Revised) (7) Allowing the PERF and TRF boards to establish due dates for employer contributions and reports will have no fiscal impact on either administrative fund.

(Revised) (8) Increasing from \$200 to \$1,000 the maximum amount in a member's ASA for purposes of suspending the member's fund membership and paying the ASA in a lump sum are estimated to reduce costs by \$17.50 per affected member. TRF has approximately 37,000 inactive nonvested members with ASA balances less than \$1,000. This would save TRF \$647,500 per year (\$17.50/member x 37,000 members) in administrative costs. PERF has approximately 45,000 inactive members with ASA balances less than \$1,000. This would save PERF \$787,500 per year (\$17.50 x 45,000 members) in administrative costs. The funds affected are the respective administrative funds.

(9) The cost of providing a 13<sup>th</sup> check for PERF is shown in the table below.

13 <sup>th</sup> Check	State	Local	Total
Change in Unfunded Accrued Liability	\$9.2 M	\$12.6 M	\$21.8 M
Change in Annual Funding	\$709,000	\$974,000	\$1.683 M
Change in Annual Funding as % of Pay	0.04%	0.03%	0.04%

The funded status would decrease from 97.5% to 97.4%.

The funds affected are the state General Fund 55%, or \$389,950, and various dedicated funds 45%, or \$319,050. The percentage split represents the split in the personal services portion of the state budget.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** See *Explanation of State Expenditures*.

**Explanation of Local Revenues:**

**State Agencies Affected:** All

**Local Agencies Affected:** Those units with members in PERF.

**Information Sources:** Doug Todd of McCready & Keene, Inc., actuaries for PERF, 317-576-1508; Steve Barley, Chief Operating Officer of PERF and Deputy Director; 317-233-4184.

**Fiscal Analyst:** James Sperlik, 317-232-9866.

#### **DEFINITIONS**

**Funded Status** - The ratio of the assets of a pension plan to its liabilities.

**Funding**- A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

**Thirteenth Check** - An annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes.

**Unfunded Actuarial Liability** - The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.